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Report Highlights:
Russian production of fluid milk is forecast to remain stable in 2003, at 33.2 million metric tons (MMT), after a one percent increase in 2002. Though the number of dairy cows will continue to decrease, productivity gains will offset this trend. Productivity gains are the result of better feed rations, facility management, and technology. Russian production of butter will decline by four percent in 2003, after a two percent increase in 2002. Cheese manufacturing registered growth of over 30 percent in 2002, as favorable market conditions brought idle capacity back into production.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Moscow [RS1], RS

Executive Summary

Russian production of fluid milk is forecast to remain stable in 2003, at 33.2 million metric tons (MMT), after a one percent increase in 2002. Though the number of dairy cows will continue to decrease, by one percent in 2003 and two percent in 2002 due to low cow replacement, productivity gains will offset this trend. Productivity gains are the result of better feed rations, facility management, and technology. Russian production of butter will decline by four percent in 2003, after a two percent increase in 2002. Cheese manufacturing registered growth of over 30 percent in 2002, though is expected to contract by six percent in 2003. In 2002, cheese manufacturers took advantage of good prices and stronger demand for local types and lower priced cheese to put underutilized production capacity back into use.

Production

While cow numbers fell by three percent in 2001, two percent in 2002, and one percent in 2003, milk production increased by four percent during that period. Factors boosting efficiency and output have been the use of more productive breeds, better feed supplies, and improved herd management.

Due to high feed and hay supplies, milk yield per cow was 587 kilograms in the first quarter of 2002, up 15.1 percent year-on-year. However, drought has seriously affected hay yield in 2002 and efficiency gains are expected to be much less in late 2002 and early 2003. Further, fodder stocks as of July 1, 2002 were 30 percent lower than in July 2001. Thus, milk production in 2003 in comparison to 2002 is forecast to fall by one percent and 2002 production will be one percent lower than previous estimates and post adjusts its estimates accordingly.

In the short and medium term, fluid milk is slowly becoming attractive for milk processors as a raw material versus dry milk. Thus, locally and foreign owned dairies are starting to invest in dairy farms. Investments bring western practices and management approaches which are supported by cheap feed supplies due to recent substantial grain harvests.

In contrast to underfunded dairy farms, farms with additional investment are able to maintain consistent quantity and quality of production. In turn, these farms can lock in profitable supply contracts where the smaller dairy farms must sell on a "spot market" basis. There is a significant difference in the terms offered by dairies on the spot market versus on a contract basis. The buyers without contracts often complain of poor and inconsistent quality and thus offer low prices.

The Russian Government projects that in 2010, Russia will produce 56 MMT of milk products and cow numbers will reach 16 million. Additionally, average per cow milk production, which in 2002 is about 2,200 liters per year, is forecast to grow to 4,300 liters per cow per year by 2010.

Table 1. Production, Supply, and Distribution of Fluid Milk

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Fluid					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Cows in milk, 1,000 heads	12500	12500	12500	12300	0	12150
Cows Milk Production	33000	33000	33500	33250	0	33200
Other Milk Production	0	0	0	0	0	0
TOTAL Production	33000	33000	33500	33250	0	33200
Intra EC Imports	0	0	0	0	0	0
Other Imports	84	84	85	85	0	90
TOTAL Imports	84	84	85	85	0	90
TOTAL SUPPLY	33084	33084	33585	33335	0	33290
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	0	5
TOTAL Exports	5	5	5	5	0	5
Fluid Use Dom. Consum.	14140	14140	14100	14100	0	14000
Factory Use Consum.	15800	15800	16360	16160	0	16240
Feed Use Dom. Consum.	3139	3139	3120	3070	0	3045
TOTAL Dom. Consumption	33079	33079	33580	33330	0	33285
TOTAL DISTRIBUTION	33084	33084	33585	33335	0	33290

Structure of National Dairy Herd

While large scale dairy farms still produce the majority of the milk used in commercial dairies, milk production at small farms (registered and not registered) is increasing relative to the larger farms. Part of this structural change can be attributed to a decrease in herd size in large, but inefficient farms. Alternatively, many large and efficient farms are maintaining herd size, while improving quality, rather than expanding quickly.

Table 2. Structure of Dairy Herds, by type of farm and percent of total animals.

	1999	2000	2001	2002 Estimate
Large farms	53.7	52.6	51.2	49.6
Small (not registered) farms	44.4	45.5	46.8	48.2
Private farmers	1.9	1.9	2.0	2.2

Source: Russian State Statistics Committee

Small farms milk production in 2002 was six percent higher than large farm output.   Table 3 underscores the reduced role of large scale, inefficient dairy farms in milk production due to lack of resources for herd and facility modernization.

Table 3. Structure of Milk Production, by type of farm and percent of total production.

	1999	2000	2001	2002 Estimate
Large farms	48.6	47.3	47.4	46.0
Small (not registered) farms	49.5	50.8	50.8	52.0
Private farmers	1.7	1.8	1.8	2.0

Source: Russian State Statistics Committee

Milk processing industry

The dairy processing sector saw a rebound in 2002 due to favorable market conditions and increased demand for certain dairy products. According to Russian statistics, from January to August 2002, butter production increased by four percent over the previous year, fluid milk by 12 percent, cheese by 26 percent, ice creme by two percent, canned concentrated milk by five percent, and baby formula by five percent. However, as mentioned, production in the second half of 2002 and early 2003 will be somewhat constrained due to the decrease in fodder supplies for dairy herds.

Table 4. Production, Supply, and Distribution of Butter

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Butter					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	0	30	30	27	30	22
Production	270	270	275	275	0	265
Intra EC Imports	0	0	0	0	0	0
Other Imports	102	110	130	120	0	135
TOTAL Imports	102	110	130	120	0	135
TOTAL SUPPLY	372	410	435	422	30	422
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	3	5	5	0	5
TOTAL Exports	3	3	5	5	0	5
Domestic Consumption	369	380	400	395	0	400
TOTAL Use	372	383	405	400	0	405
Ending Stocks	30	27	30	22	0	17
TOTAL DISTRIBUTION	402	410	435	422	0	422

Consumption

Per capita fluid milk consumption increased in 2002 by one percent, though consumption is expected to decrease in 2003 due to lower raw milk supplies. Despite recent investment and improvement in production, yogurt consumption in Russia lags far behind Europe. Russians consume an average of 1.1 to 1.5 kg of yogurt per year, compared to 12 kg in Germany and 17 kg in France. Yogurt consumption is expected to rise in line with consumer purchasing power increases.

According to Russian statistics, retail trade of dairy products is also increasing in Russia. Beside increasing production and imports, it partially can be explained by improving distribution chains for refrigerated products. Sales of dairy products for retail outlets are also more transparent than sales from outdoor markets or very small vendors.

Table 5. Production, Supply, and Distribution of Cheese

PSD Table						
Country:	Russian Federation					
Commodity:	Dairy, Cheese		1,000 MT			
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/20023
Beginning Stocks	7	7	8	8	10	8
Production	260	260	320	340	0	320
Intra EC Imports	0	0	0	0	0	0
Other Imports	130	140	140	130	0	150
TOTAL Imports	130	140	140	130	0	150
TOTAL SUPPLY	397	407	468	478	10	478
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	10	5	0	10
TOTAL Exports	5	5	10	5	0	10
Human Dom. Consumption	384	394	448	465	0	458
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	384	394	448	465	0	458
TOTAL Use	389	399	458	470	0	468
Ending Stocks	8	8	10	8	0	10
TOTAL DISTRIBUTION	397	407	468	478	0	478

Trade

Exports

Russian exports to Former Soviet Republics is growing in the areas of cheese, whole milk powder, nonfat dry milk, and other processed dairy products. This can be attributed to the familiarity of Russian companies with these markets, investments in production in those countries, and the use of consumer familiarity with products and tastes that were popular during Soviet times as a marketing tool. Additionally, several multinational companies are choosing Russia as their production headquarters for the Former Soviet Union region. For example, the Russian division of the French company Danone Group is increasing production in order to sell about 7,000MT of dairy products to Kazakhstan, Belarus, Ukraine and Azerbaijan.

Imports

Imported dairy products continue to grow at a modest pace. Most important are cheese, butter, and nonfat dry milk. Imports make up a significant portion of the Russian market in all of these products. The main suppliers are the European Union and the Baltic countries.

Table 6. Production, Supply, and Distribution of Dry Whole Milk Powder

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Dry Whole Milk Powder					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2002
Beginning Stocks	0	0	0	0	0	0
Production	85	110	95	120	0	120
Intra EC Imports	0	0	0	0	0	0
Other Imports	25	15	30	16	0	20
TOTAL Imports	25	15	30	16	0	20
TOTAL SUPPLY	110	125	125	136	0	140
Intra EC Exports	0	0	0	0	0	0
Other Exports	6	6	10	6	0	6
TOTAL Exports	6	6	10	6	0	6
Human Dom. Consumption	104	119	115	130	0	134
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	104	119	115	130	0	134
TOTAL Use	110	125	125	136	0	140
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	110	125	125	136	0	140

Table 7. Production, Supply, and Distribution of Nonfat Dry Milk

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Nonfat Dry					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	0	0	0	0	0	0
Production	130	130	140	140	0	130
Intra EC Imports	0	0	0	0	0	0
Other Imports	65	50	70	50	0	60
TOTAL Imports	65	50	70	50	0	60
TOTAL SUPPLY	195	180	210	190	0	190
Intra EC Exports	0	0	0	0		0
Other Exports	10	15	15	20	0	25
TOTAL Exports	10	15	15	20	0	25
Human Dom. Consumption	185	165	195	170	0	165
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	185	165	195	170	0	165
TOTAL Use	195	180	210	190	0	190
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	195	180	210	190	0	190

Table 8. Average Producer Price on Raw Milk, Beef, and Grain Crops, rubles per ton

	1999	2000	2001
Milk	3,045	3,633	4,436
Beef	11,729	14,142	19,775
Grain crops	1,390	2,113	2,138

Source: Russian State Statistic Committee

Table 9. Average Retail Prices for Dairy Products, rubles per kilo

	1999	2000	2001
Butter	66.8	69.1	71.7
Cheese, 1,000MT	74.3	85.1	103.1
Vegetable oil	25.7	23.2	33.1
Milk, fluid, pasteurized per liter	8.0	9.7	11.37

Source: Russian State Statistic Committee

Stocks

Stocks of dairy products remain relatively stable.

Policy

The Russian Ministry of Agriculture has developed a baseline for livestock production up to the year 2010. According to the projections, production will grow from 2,700 liters per cow per year in 2002 to 4,300 liters per cow per year in 2010. Milk production will grow mostly due to higher cow productivity through better pedigree stock and feeding practices and the introduction of new technologies. Additionally, feed quality is also an issue that the industry is eager to improve. Thus, the share of legumes in feed is expected to grow from five percent to 13 percent, corn grain - from five percent to 11 percent, and barley - from 20 percent to 42 percent.

Recently, the Russian State Standards Committee has tried to change the labeling for fluid milk made from concentrated milk with sugar and vegetable oil. Initially, the Moscow Society of Protection of Consumers Rights requested that GOSSTANDARD (State Standard Committee) and the Anti-Monopoly Committee prohibit the use of the name "concentrated milk" and the white and blue label used for such products. This milk product is produced using partial substitution of milk fat by vegetable oil. Most concentrated milk in Russia is produced with vegetable oil because of shortage of raw milk and of its lower cost in comparison to milk fat. The Standards Committee would like to introduce a way of differentiating milk products made with vegetable oil from those only made with added milk fat. No decision has been made.

Marketing

Producer prices and retail prices are compared in Tables 8 and 9 for dairy and meat products. These tables illustrate the considerable difference in the prices paid to farmers and final retail price. This is a issue that farmers are asking policy makers to take action to remedy.

Profits of raw milk producers have significantly decreased in 2002. For example, in Vologda, famous of its butter, the raw milk price decreased from 5.2 to 2.6 rubles per liter. According to the local department of agriculture, producers of raw milk and milk processors need to integrate which will help to stabilize prices. However, milk processors are more profitable and are currently unwilling to unite too closely with farms. In many regions, dairy farms have little choice but to sell to the one or two existing dairies. However, farms situated near Moscow can be selective because of the strong demand for consistently high quality milk.

Lactalis, maker of "President" dairy products, plans to start building a plant costing $13 million to produce up to 6,000 tons of processed cheese annually outside Moscow. Lactalis sold more than 2,000 tons of dairy products made in France and Poland to Russia in 2001. The French dairy giant is thought to control about one percent of the Russian processed cheese market. Its biggest competitors are Hochland (with about seven percent of the market), Valio (23 percent), and Russia's Karat (eight percent) and Yantar (13 percent).